

REIMAGINING HEALTHCARE IN INDIA THROUGH BLENDED FINANCE

WHITE PAPER

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Reimagining Healthcare in India through Blended Finance

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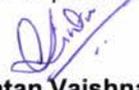
FOREWORD

Atal Innovation Mission (AIM) is a key policy initiative of the Government of India (GoI), set up under the NITI Aayog umbrella to promote the culture of innovation and entrepreneurship across the Indian geography. AIM's primary objective is to create and promote the entrepreneurship and innovation ecosystem across the nation at schools, universities, research institutions, MSMEs, and industry levels.

Healthcare services in India are public or private sector-driven, and the focus is on reducing mortality and morbidity associated with various communicable and non-communicable diseases. The disparities and challenges associated with equitable, accessible, and affordable healthcare services get exposed when compared geographically across India. The National Health Policies over the years have served well in strategizing the approach towards a more inclusive healthcare system in the country and aim at achieving a Universal Health Coverage (UHC) for all its citizens. Given its importance for the present and future, healthcare innovations have emerged as a critical area of research and practice. NITI Aayog and AIM, in cooperation with other ministries and departments, is continuously engaged in promoting innovation through favourable innovation policies and entrepreneurship programs. These initiatives have helped India move up the global start-up ecosystem ranking, helped develop information, and raised the number of knowledge and technology-based enterprises. A recent coffee table book published by AIM presents the success stories of 45 commercialized health tech start-ups leveraging a range of emerging technologies to provide socially relevant solutions to health problems. The achievements of these 45 start-ups speak volumes about the maturing healthcare innovation ecosystem in India. Investments in health tech start-ups have increased by 45% over the last decade, and the biotechnology industry alone now comprises more than 2700 biotech start-ups and is estimated to reach 10,000 by 2024.

As India navigates through the health, financial, and socio-economic impact of COVID-19, it is apparent that the country needs to dramatically increase and improve the quantity and quality of spending on healthcare. This increased investment will be critical to maintaining its development trajectory and delivering state-of-art healthcare services for all. In the shorter run, emergency government spending on social welfare and traditional development aid are crucial to minimizing the impact of COVID-19. However, to correct the structural weaknesses in the healthcare system would require the use of innovative financing instruments that can help mitigate the risk associated with healthcare research and development. *Blended Financing* can be defined as an investment strategy that uses commercial and concessional capital from public and/or philanthropic sources to fund entrepreneurship and innovation in developing countries. Simply put, concessional/catalytic capital accepts a reduced rate of return (i.e., higher risk) to generate a positive and sustainable impact. Doing so makes third-party investments (that would otherwise not have been possible) possible. Blended finance addresses the two main obstacles private investors face when considering investments in developing countries: a) high perceived and real risk and b) poor returns for the risk taken compared to other investments.

This white paper curated by experts from AIM, NITI Aayog, USAID, and IPE Global presents a vision of using Blended Financing as a viable financing instrument to spur the next wave of healthcare innovation & entrepreneurship in India. Blended Financing can help fast-track India's response to the COVID-19 pandemic and other emerging diseases by supporting high-impact innovative healthcare solutions that address the critical health system challenges faced during the second wave of the COVID-19 pandemic in India.


Dr. Chintan Vaishnav

Mission Director, Atal Innovation Mission

NITI Aayog

(डॉ. चिंतन वैष्णव)

(Dr. Chintan Vaishnav)

मिशन निदेशक, अटल इनोवेशन मिशन

Mission Director, Atal Innovation Mission

नीति आयोग

NITI Aayog

भारत सरकार/Govt. of India



एक कदम स्वच्छता की ओर



MESSAGE

In the year 2021, NITI Aayog had launched a report called- "Investment opportunities in India's Healthcare sector", which talked about the range of investment opportunities in various segments of India's healthcare sector, including medical devices and equipment, health insurance, telemedicine, home healthcare and medical value travel. It is great to see that many start-ups have started springing up in the above sectors. But even though we see that the number of start-ups in the healthcare domain is on the rise, the gestation period for these start-ups remains high. The severity of the Covid crisis and the urgency to act is such that innovative financing models have become indispensable.

The blended finance model hits two birds with one stone- it uses development finance and philanthropic funds to attract private capital into deals, and the private investors receive financial returns which are in line with market expectations. In doing so, it not only helps reduce the dependency of start-ups on government debt but also accelerates the building of commercially viable social impact projects. Such financing models will help fast-track India's response to subsequent waves and support the immediate deployment of high-impact healthcare solutions.

I will want to congratulate the Atal Innovation Mission (AIM), NITI Aayog, for joining hands with SAMRIDH Health Blended Finance Facility, supported by USAID India, to strengthen India's health systems with blended financing solutions. It is great to see that our start-ups are innovating, and the overall ecosystem is evolving to support them with innovative financing models.

Amitabh Kant,
Chief Executive Officer, NITI Aayog



Message

Blended finance is a unique strategy that potentially combines public, private and philanthropic resources to catalyse risk-adjusted financing for various impact initiatives that can help address some of the world's critical challenges. As an instrument, blended finance has the potential to increase the social and environmental impacts by accessing a varied pool of capital from investors with different levels of risk. This tri-sector collaboration between public, private and philanthropic resources can attract commercial capital towards Sustainable Development Goals (SDG) while providing returns to the investors. This innovative approach helps to expand the resource envelope to developing countries and enable them to fill their SDG financing gaps.

Healthcare is one of the high-impact sectors, where blended financing can play a significant role. Affordable, high-quality and innovative solutions, that can address India's unmet healthcare needs, are urgently required. Strategic use of blended financing techniques in healthcare can have significant impact in a resource limited country like ours. Promoting adoption of blended financing is timely and futuristic.

I congratulate the teams at IPE Global, Atal Innovation Mission and the Health & Family Welfare Division at NITI Aayog and all other collaborators, for this publication on blended financing in healthcare that aptly discusses the principles of blended finance and the role it can play in the healthcare system.

(Rakesh Sarwal)





Message from Veena Reddy, USAID/India Mission Director White Paper: Reimagining Healthcare in India through Blended Finance

As the COVID-19 pandemic began, the U.S. Agency for International Development (USAID) and our partners sought to leverage the expertise and innovation of India's dynamic private sector to develop and scale responsive healthcare solutions. In 2020, USAID collaborated with IPE Global and stakeholders from the Indian government, academia, and the private sector to develop an innovative blended finance facility to combine public and philanthropic funds with commercial capital to create and scale market-based health solutions. Thus, the Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare (SAMRIDH) initiative was created. In a short span of time, SAMRIDH has helped to scale 19 novel innovations that are expanding the reach of private healthcare, improving India's healthcare infrastructure, and strengthening the supply chain in order to reach vulnerable populations.

This informative and compelling white paper, *Reimagining Healthcare in India through Blended Finance*, developed in collaboration with NITI Aayog's Atal Innovation Mission, articulates the concept of blended financing and synthesizes the early learnings from the SAMRIDH initiative. *Reimagining Healthcare* offers approaches to leverage innovative financing mechanisms to improve healthcare services for India's most vulnerable populations. Notably, the white paper provides case studies to illustrate SAMRIDH's technical application of blended finance solutions to address healthcare challenges. We hope this document will serve as a resource for interested development partners, government agencies, academia, civil society, and the private sector, including the finance sector and entrepreneurs.

I commend NITI Aayog and Atal Innovation Mission for their partnership and leadership in this important effort. Special thanks are also due to the staff of USAID's Partnerships for Affordable Healthcare Access and Longevity (PAHAL) project, implemented by IPE Global, for their technical expertise in leading the SAMRIDH initiative and developing this white paper.

As articulated in the white paper, blended finance is an important tool to both incentivize private sector participation in development outcomes and maximize our reach, investing in projects that deliver both financial and social returns as we strive for broader sustainable development outcomes. Through initiatives such as this, USAID is proud to collaborate with the Government of India, the private sector, and civil society to strengthen the impact, reach, affordability, and quality of health services in India.

Veena Reddy

Veena Reddy

Mission Director, USAID/India

Ashwajit Singh
Founder & Managing Director
IPE Global

Message

At the onset of the pandemic, health systems world over were unprepared to respond to the scale and complexity of COVID-19. India was no exception. The already fragile health system was overwhelmed with the rampant spread of the novel virus and the surge in cases. The crisis highlighted the need to rapidly reform the sector through investment in market solutions and innovations.

However, the resources and funds available from government and philanthropic sources, no matter how generous, are just not enough for such a massive exercise. There is thus an urgent need to find innovative ways to speed up structural reforms and encourage commercial investments for these efforts.

SAMRIDH, supported by USAID and implemented by IPE Global, was thus born amidst the first wave of COVID-19 to unlock greater capital for scaling up of high impact health solutions. Considering private investors are mostly hesitant to fund projects in this domain, as they perceive them to be risky ventures, SAMRIDH leverages the distinct blended financing model that mobilizes grant funding to offset barriers for commercial investments. This approach to innovative financing is rapidly proving to be a game changer by meeting the unique capital needs of healthcare enterprises, helping them reach out to vulnerable populations across tier 2 and 3 cities in India with their high-impact innovative solutions.

IPE Global is proud to collaborate with Atal Innovation Mission (AIM), NITI Aayog to further accelerate India's response to the pandemic and future health emergencies. This White Paper is a reinforcement of the importance of leveraging blended finance towards building a resilient and sustainable healthcare system for India.

Ashwajit Singh

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India has made great progress in improving the health of its citizens over the past few decades. But still, many health inequities persist. The private sector, startups, and healthcare enterprises can play a critical role in bridging this gap. Unfortunately, access to affordable capital, especially commercial capital, is a bottleneck to scaling up. Often termed as the second valley of death, innovators are unable to access resources for scaling proven high-impact solutions. Blended finance can offer a way out of this predicament.

In 2021, IPE Global partnered with NITI Aayog's flagship program Atal Innovation Mission to support various current and future initiatives of AIM program beneficiaries and promote innovation and entrepreneurship amongst aspiring entrepreneurs.

This document emerged out of this partnership. An incredible amount of work went into its creation, and we are especially thankful to NITI Aayog for their partnership in developing this white paper. It would not have been possible without members' contributions from multiple organizations across teams.

We would like to thank our advisors, Dr. Chintan Vaishnav, Mission Director, AIM; Dr. Rakesh Sarwal, Additional Secretary, NITI Aayog, Mr. Ashwajit Singh, Managing Director, IPE Global; Mr. Himanshu Sikka, Health Practice Lead, IPE Global), for extending their valuable insights and guidance, which has been instrumental in creating this white paper.

We thank Ms. Sangita Patel, Director, Health Office, USAID, Dr. Amit Shah, Deputy Director, Health Office, USAID, Ms. Cynthia Gire, Senior Advisor Innovations, USAID, Mr. Gautam Chakraborty, Development Assistance Specialist (Health Finance), USAID and other USAID India team members for their continuous support and encouragement.

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The case studies used in the document would not have been possible without contributions from IndusInd Bank, Caspian Debt, Blackfrog Technologies, National Skill Development Corporation, and British Asian Trust.

We want to acknowledge the contributions of SAMRIDH's Advisory Committee Members. Lastly, we would like to acknowledge the contributions provided by the entire SAMRIDH's Technical Support Unit at IPE Global. We want to extend special thanks to Dr. Ashish Mendhi, Project Director, PAHAL; Ms. Vinaina Suri, Sr. Communications Manager; Ms. Ritika Pandey, Associate Director; Ms. Aanchal Jain, Manager Financial Advisory; Mr. Sudheer Nadipally, MLE Expert and Dr. Sandeep Goyal, Public Health Expert.

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ABBREVIATIONS

AB	—●—	Ayushman Bharat
BAT	—●—	British Asian Trust
BRICS	—●—	Brazil, Russia, India, China, and South Africa
CAGR	—●—	Compound Annual Growth Rate
CHW	—●—	Community Health Worker
CIFF	—●—	Children's Investment Fund Foundation
CSO	—●—	Civil Society Organization
CSR	—●—	Corporate Social Responsibility
DFC	—●—	Development Finance Corporation
ESG	—●—	Environmental, Social and Corporate Governance
FA	—●—	Financial Assistance
FCRA	—●—	Foreign Contribution Regulation Act
FDA	—●—	Food and Drug Administration
FDCO	—●—	Foreign, Commonwealth & Development Office
FDI	—●—	Foreign Direct Investment
FI	—●—	Financial Institutions
GDP	—●—	Gross Domestic Product
GOI	—●—	Government of India
HNI	—●—	High-Net-worth Individuals
IIT	—●—	Indian Institute of Technology
M&E	—●—	Monitoring and Evaluation
MHA	—●—	Ministry of Home Affairs
MoHFW	—●—	Ministry of Health and Family Welfare
NBFC	—●—	Non-Banking Financial Company
NGO	—●—	Non-Governmental Organization
NHA	—●—	National Health Authority
P4P	—●—	Pay-for-Performance
PAHAL	—●—	Partnerships for Affordable Healthcare Access and Longevity
PAT	—●—	Profit After Tax
PCMC	—●—	Pimpri Chinchwad Municipal Corporation
PE	—●—	Private Equity
PM-JAY	—●—	Pradhan Mantri Jan Arogya Yojana
PSA	—●—	Principal Scientific Advisor
SAMRIDH	—●—	Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare
SDG	—●—	Sustainable Development Goals
SIB	—●—	Social Impact Bond
SSN	—●—	Social Success Note
TVET	—●—	Technical and Vocational Education and Training
UN	—●—	United Nations
USAID	—●—	United States Agency for International Development
USG	—●—	United States Government
VC	—●—	Venture Capital

INTRODUCTION



INTRODUCTION

Global economies are taking giant strides towards a world where poverty is eradicated, economies are transformed, and sustainable development benefits everyone with minimal environmental degradation. But the resources needed to achieve this are immense. As per the latest estimates by the United Nations, nearly USD 3.9 trillion is needed to achieve the Sustainable Development Goals (SDGs) by 2030, more than double the current funding of \$1.4 trillion dedicated towards SDGs from domestic and international sources¹.

It is therefore imperative for private investment to augment efforts of the development finance institutions and philanthropic funders to achieve the SDGs. One of the key challenges of the SDG era is to channel more private investment and resources to the countries and sectors that need it the most.



Source: SDG 2030 Agenda

According to the State of the Blended finance Report, the SDG financing gap which stood at USD 2.5 trillion before the onset of pandemic, went up by an additional USD 1.7 trillion² due to pandemic-related financing needs. The devastation caused by the pandemic also exposed the gaps and shortcomings of the healthcare sector and amplified the need for new-age health solutions and innovations and increased healthcare capacity and infrastructure.

Standard Chartered SDG Investment Map estimates a need for investments worth USD 2.64 trillion to achieve the SDGs in India, offering the private sector an opportunity to invest USD 1.12 trillion+ by 2030³. While the health ministry plans to boost India's public health expenditure to 2.5% of its Gross Domestic Product (GDP by 2025, data from recent years shows this has remained within a narrow band of 1.02-1.28% of GDP⁴ so far.

¹ Citing \$2.5 Trillion Annual Financing Gap during SDG Business Forum Event, Deputy Secretary-General Says Poverty Falling Too Slowly

² The State of Blended Finance 2021, Convergence

³ Opportunity2030 The Standard Chartered SDG Investment Map

⁴ India unlikely to meet sustainable development goals on health by 2030: CAG, Business Standard

Given the vast inequalities in healthcare distribution, glaring lack of trained healthcare personnel and infrastructure and low government spending on healthcare, India has immense potential for innovative, sustainable, and scalable healthcare technology to improve the lives of its citizens. Yet in a country with 1.38 billion people, many now equipped with internet connections and smartphones, it is still difficult to find more than a handful of examples of digital technology being widely used to significantly impact healthcare outcomes. Even though there are about 4,308 start-ups officially registered in the health-tech⁵ domain, they are unable to scale up due to multiple challenges like regulatory roadblocks, access to appropriate capital and markets, lack of incentives to adopt innovative practices, market inefficiencies, and high barriers to entry, to name just a few.

India's unique accessibility, affordability, and quality challenges can be addressed by innovative healthcare solutions. Given the size of the sector, a quick rate of adoption and the resultant scale will have an immense impact. But for this to happen, conventional modes of healthcare funding will need to be aided by innovative funding methods. A tri-sector collaboration between public, private, and philanthropic capital is thus a distinct option which could help unlock the funding challenges.

Blended finance, the strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes, can be an essential tool to address healthcare challenges. Blended finance can drive significant new capital flows into high-impact sectors like healthcare, while effectively leveraging private sector expertise to identify and execute developmental investment strategies. The vital themes shaping healthcare delivery in the future include empowered and informed customers, flexible and adaptive operating models, non-traditional resources and partnerships, a growth and innovation mindset and a laser sharp focus on accountability, integrity, and sustainability.

This white paper briefly introduces the principles of blended finance, explains how it can play a role within the Indian healthcare sector, and concludes with a series of case studies that demonstrate the green shoots of new models for financing health impact.

⁵Tracxn Healthtech India report 2020

BLENDED FINANCE - AN OVERVIEW

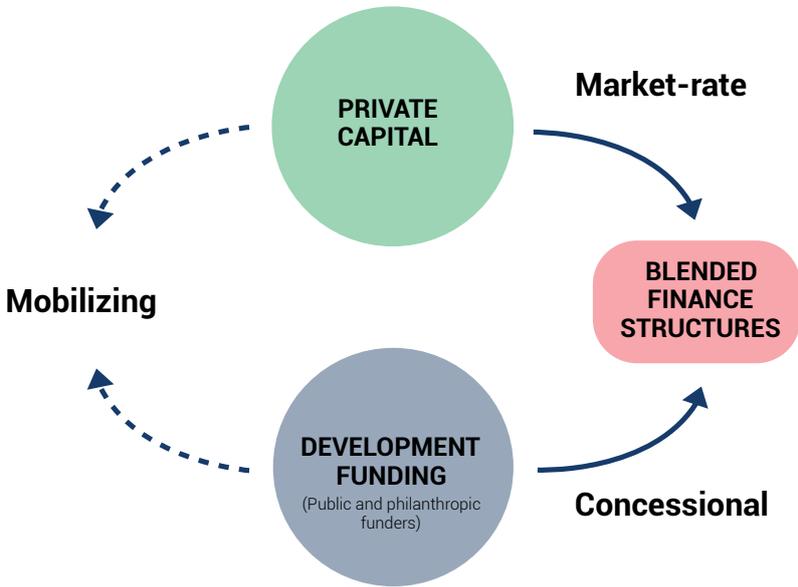


BLENDING FINANCE - AN OVERVIEW

What is blended finance?

Blended finance is an approach towards financing where catalytic funding (e.g., grants and concessional capital) from public and philanthropic sources is utilized to mobilize additional private sector investment to realize social goals and outcomes.

Blended finance is the strategic use of concessional capital and private capital in projects where the perceived risks are too high for private players to participate alone. By combining concessional and commercial capital, blended finance can achieve acceptable risk/return profiles for different types of financing partners, including private capital.



Source: Convergence, Blended Finance

How does blended finance work?

Blended finance is a structuring approach that allows enterprises to invest alongside each other while achieving their different objectives: financial return, environmental/social impact, or a blend of both. Blended finance is therefore not a single instrument but rather a financial structure in which different investors with different investment priorities can participate.

Blended finance is expected to achieve additionality, both financial and developmental. The definition requires that blended finance mobilizes additional finance (financial additionality) which is used for sustainable development (development additionality). In other words, blended finance is a financial mechanism to deliver additional development impact by mobilizing commercial capital that would otherwise not be available if left to market forces.

The main barriers for private investors addressed by blended finance are:

- i. High perceived risk on an investment opportunity
- ii. Poor returns for the given risk relative to comparable investments

KEY CHARACTERISTICS OF BLENDED FINANCE

Blended Finance can be characterized by three main features:

- LEVERAGE** Use of development finance and philanthropic funds to attract private capital into deals
- IMPACT** Investments that drive social, environmental and economic progress
- RETURNS** Financial returns for private investors in line with market expectations, based on real and perceived risks

How does blended finance achieve social goals?

- Reduces dependency on government debt and sovereign guarantees
- Builds a pipeline of commercially viable social impact projects
- Reduces the risk premium through co-financing and co-investment

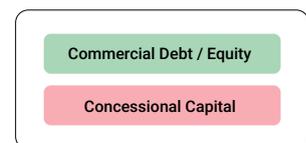
Blended finance is a valuable tool for Bilateral and Multilateral agencies, Philanthropic Organizations, and Corporate Social Responsibility (CSR) foundations to complement traditional grant-making and invest their monies in the form of loan/equity/guarantee in projects that deliver financial and social returns. It has enabled large foundations such as the Bill and Melinda Gates Foundation, Rockefeller Foundation, Michael and Susan Dell Foundation, Open Society, Children’s Investment Fund Foundation, bilateral and multilateral agencies like USAID, UKAID and others to bridge the risk appetite gap and subsidize financial risk through grants or forms of low-cost returnable capital to direct commercial capital into development initiatives.

Blended finance also has a crowding-in effect wherein, when new models are workable and successful, other commercial players also start providing funding in the space independently using similar models. Over a period, this leads to an increase in the total capital deployed in the target areas.

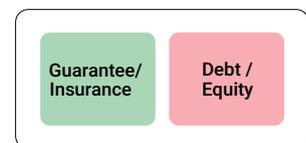
Blended finance archetypes

Blended finance should not be seen as an investment approach, or an instrument, or an end solution. As per Convergence⁶, there are four common blended finance structures:

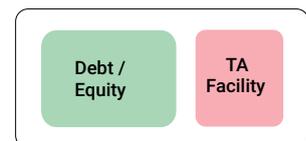
I. Public or philanthropic funders provide funds at below-market terms within the capital structure to lower the overall cost of capital, or provide an additional layer of protection to private investors (referred to as concessional capital).



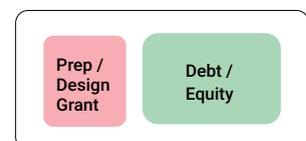
II. Public or philanthropic funders provide credit enhancement through guarantees or insurance on below-market terms to private investors (referred to as risk guarantees/insurance).



III. The transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact (referred to as technical assistance funds).



IV. Transaction design or preparation is grant-funded (including project preparation or design-stage grants) (referred to as design-stage grants).

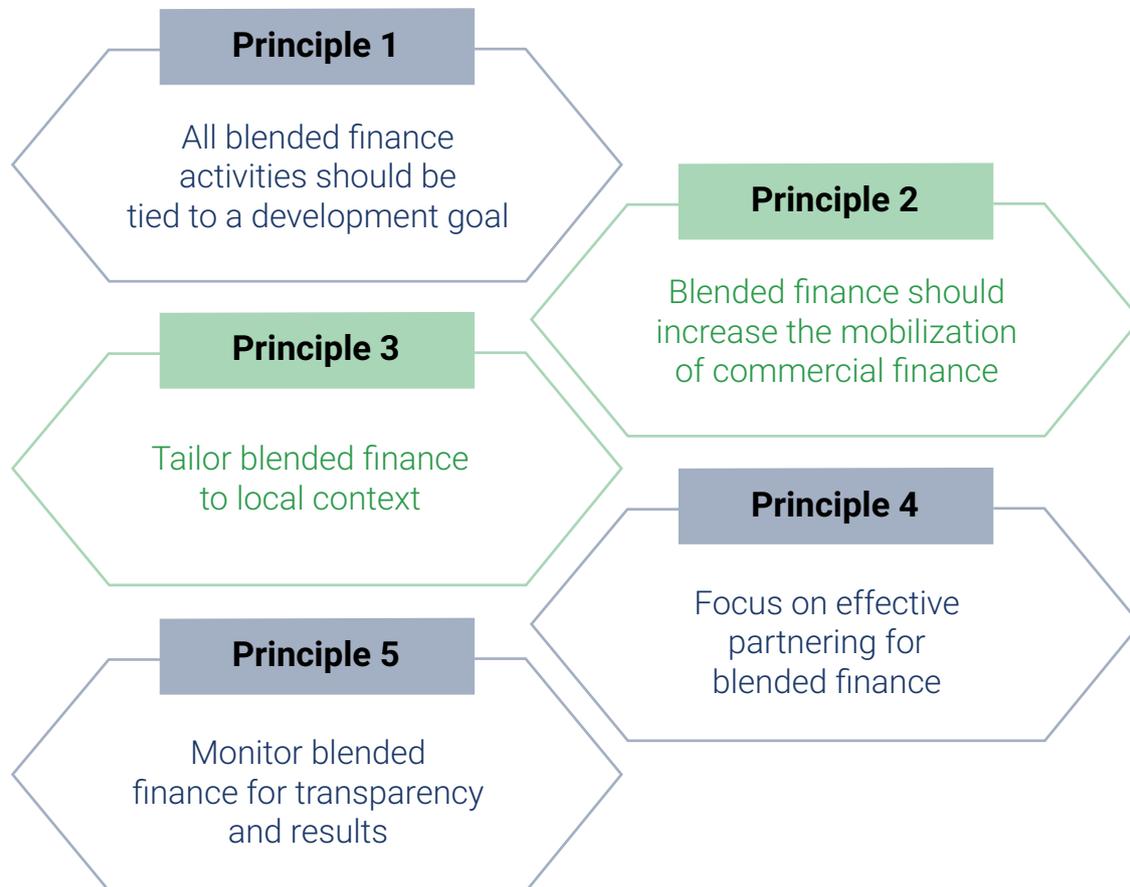


⁶ Blended Finance Archetypes, Convergence

Principles of blended finance

The blended finance principles outline the practical steps and elements that can facilitate the design and implementation of blended finance programs. These principles aim to enhance the growth and expand the quality of finance that can be mobilized and invested in the sustainable development of economies globally.

With the changing landscape of developmental and sustainable financing, numerous innovative instruments are deployed across the nations, developing new approaches and practices. The five underlying principles below reflect the new developments and best practice examples for blended finance and act as a guiding framework to successfully mobilize private capital to maximize the impact for sustainable development.



Source: Re-imagining Traditional Finance for India's COVID Recovery

BLENDED FINANCE FRAMEWORK



BLENDED FINANCE FRAMEWORK

What are the pre-requisites for initiating a blended finance transaction?

Some of the pre-requisites for initiating a blended finance transaction that involves commercial investors should include:

- The need for capital support should ideally be looked at the entity level instead of the transaction level
- The support through blended finance should result in scale-up and expansion of business
- The blended finance structure should enable the entity to progress from early to mid-revenue or launch the commercial journey with debt capital
- There should be a lender or risk investor participation in the structure or should be attractive to the impact investors to participate
- The blended finance solution should demonstrate leverage of at least 3x on the donor funds
- The solution created should catalyze pathway to unlock more commercial capital subsequently
- The blended finance solution should be looked at from the lens of accelerating it into a borrowing program for a private placement or platform listing on a social stock exchange in future
- The entity should score high on the following aspects for the blended finance solution involving commercial capital (debt) to be viable

Checklist for mobilizing commercial capital from private investors in blended finance transactions

S. No.	Parameters	Indicative questions to ask for conducting the evaluation
1	Sustainability	Does the healthcare enterprise have an operational history with sustainable growth, say, increase in Net Sales/ PAT margins / Net Worth?
2	Unit Level Viability	Positive unit economics (more revenue per unit sold or service /per cost incurred for the unit/service)
3	Existing Capital Structure	Does healthcare enterprises' capital structure allow them to take commercial capital on their books?
4	Commercial Viability	Is the healthcare enterprise in the early-mid revenue/post-revenue stage? And; Has the healthcare enterprise demonstrated the ability to generate revenue from the proposed solution?
5	Management Capability	Does the leadership team of the healthcare enterprise have a defined vision and goals for the next 3-5 years?
6	Competitive Positioning	Does the healthcare enterprises' solution have a competitive edge over existing solutions in the market in terms of pricing/ features/ location, etc.?
7	Market Opportunity	Is there a proof of market demand for the proposed solution? Or Does the healthcare enterprise have orders in hand to scale up the proposed solution?
8	Business Model	Is the healthcare enterprise dependent on non-commercial funds (such as grants, CSR funds, philanthropic capital) to provide services to its customers?

Participants in blended finance transactions

Historically, various institutions have been identified to participate in numerous blended finance transactions. However, their objectives for participating in a blended finance transaction vary.

Below is a list of different participants, with their respective objectives, roles, and preferred instruments:

Participant	Objective	Role in blended finance	Financial instruments
Donor Country Governments	High development impact Eligibility concessional return	Provider of concessional finance for de-risking Enabler of blended finance ecosystem Investors	- Grants - Loans - Equity (in some cases) - Guarantees
Partner Country Governments	High development impact Concessional return	Recipient of ODA, policymaker, regulator, investor	- Grants - Loans - Equity (in some cases) - Guarantees
National Development Banks	High development impact Financial sustainability Concessional returns in targeted development areas	Investor/guarantor, provider of local currency finance, manager of concessional finance for blending	- Loans - Equity - Guarantees - Grants (as trustee)
National Investment Funds (SWF, Public Pension Funds)	Commercial returns Development impact	Project developer, arranger of blended finance solutions, investor	- Loans - Equity
Multilateral Development Banks and Development Finance Institutions	Development impact Financial sustainability Commercial returns (for private sector operations) Concessional returns (for public sector operations)	Arranger, anchor/co-investor, guarantor, M&E, policy advice, trustee/manager of concessional funds for blending	- Loans (mainly senior, some mezzanine) - Equity (limited) - Guarantees - Grants and other concessional instruments (as trustee)
Project Developers	Project development Commercial returns	Preparation of bankable projects, arranger for project development phase	- Grants - Equity
Commercial Banks	Commercial returns	Investor and arranger (in some cases)	- Loans (short- to medium-term) - Equity (limited)
Institutional Investors	Commercial returns	Investor	- Loans (short- to long term) - Equity

Participant	Objective	Role in blended finance	Financial instruments
Retail Investors	Commercial returns	Investor	- Debt - Equity
Impact Investor	Eligibility concessional returns High development impact	Investor	- Debt - Equity
Philanthropy	Development impact Concessional returns	Incubation, piloting, provider of concessional Finance for de-risking	- Grants - Patient/Catalytic capital (Equity, Debt)
Civil society (NGOs, Trade Unions, etc.)	Development impact Transparency Equity Compliance with human rights and ESG standards	M&E, capacity building, piloting innovative finance	Grants
Research Centers and Academia	Transparency learning	Capacity building, policy advice, knowledge	Grants

IMPROVING HEALTHCARE IN INDIA WITH BLENDED FINANCE



IMPROVING HEALTHCARE IN INDIA WITH BLENDED FINANCE

Current healthcare investment landscape in India and funding gaps

Although India's healthcare sector has grown rapidly over the last five years (Compound Annual Growth Rate of 22%)⁷, COVID-19 has brought to the forefront persistent challenges such as a weak health system, lack of quality infrastructure, and lack of quality service delivery to vulnerable populations.

India's healthcare spending is 3.6% of GDP, including out-of-pocket and public expenditure. The combined total government expenditure of both central and state is 1.29% of GDP. India spends the least among BRICS countries: Brazil spends the most (9.2%), followed by South Africa (8.1%), Russia (5.3%), China (5%)⁸.

The National Health Policy has mandated states to increase health spending on primary care by at least 10% every year to reach the target of spending 2.5% GDP⁹. In addition, the government has liberalized FDI norms to allow up to 100% investment in almost all sectors (hospital construction, medical devices, insurance, and in greenfield projects related to healthcare, biotechnology, pharmaceutical) except for brownfield sectors like healthcare, biotechnology, and pharmaceutical where it is up to 74%⁷. Despite this, 66% of the FDI inflows in the past two decades were in drugs and medicines, followed by hospitals & diagnostic centers and medical & surgical appliances⁷. Since 2010, more than 110 private equity (PE) and venture capital (VC) investors have invested in the healthcare delivery space, with a transaction value of USD 1,275 Million (2016)¹⁰. Four major hospitals and diagnostics chains recently had successful initial public offerings to raise capital. But the investments and capital raised have been from established market players with a strong focus on profitability and growth and not necessarily on accessibility and affordability.

To address this, the Government of India has launched the flagship initiative Ayushman Bharat (AB) Pradhan Mantri Jan Arogya Yojana (PM-JAY) the world's largest non-contributory Government-sponsored health insurance scheme that enables increased access to in-patient healthcare for poor and vulnerable families in secondary and tertiary facilities. Ayushman Bharat will cover 500 million poor people, increasing demand for secondary and tertiary care by one crore hospitalizations per year. It is estimated that 300,000 new beds will be required, which can be met by utilizing spare capacity, increased efficiency through technology and large additional resources mobilized for the sector. Innovations, both technological and financial, are expected to play a vital role in bridging this gap.

Before COVID-19, it was estimated that over \$500 billion of private capital must be mobilized annually to meet all of India's sustainable development goals by 2030¹¹. To address access, affordability, and quality healthcare, it is estimated that under a business-as-usual scenario USD 256 billion would be needed by 2034 to achieve sustainable development goals related to health. But with the adoption of new technologies and a focus on prevention and wellness, the funding requirement is estimated at USD 156 billion¹². This implies that government and philanthropic funding will need to be applied even more judiciously. The potential solution is blended finance, i.e., using a combination of public or philanthropic (grant) and commercial (equity or debt) capital to create new funding structures towards achieving developmental impact in healthcare

⁷ Investment Opportunities in India's Healthcare Sector NITI AAYOG

⁸ India's economy needs big dose of health spending

⁹ National Health Policy 2017 MoHFW

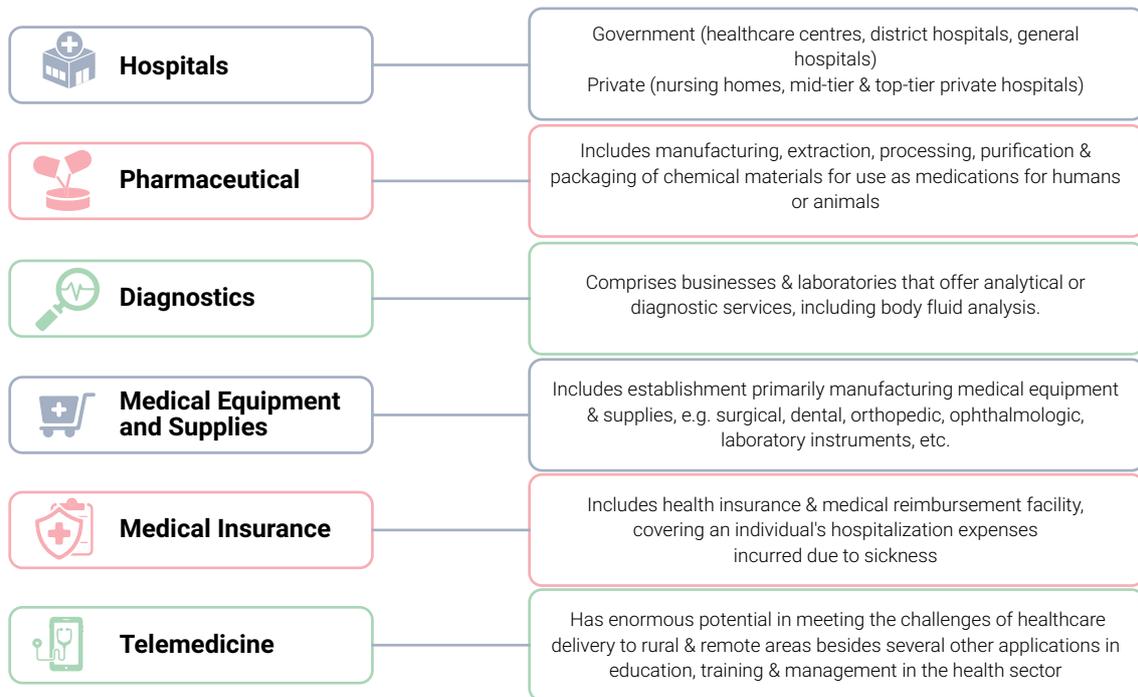
¹⁰ Financing and Funding Indian Healthcare: Navigating the Turbulent Tide NATHEALTH PwC

¹¹ Blended Finance for a post COVID-19 world, Observer Research Foundation, July 2020

¹² Funding Indian healthcare Catalysing the next wave of growth NATHEALTH PwC

Investment Opportunities within Health Subsectors

India's healthcare industry comprises hospitals, medical devices and equipment, health insurance, clinical trials, telemedicine, and medical tourism. Major Segments on the supply side of India's healthcare sector are shown below.



Source: Healthcare. India Brand Equity Foundation

COVID-19 will likely catalyze long-term changes in attitudes towards personal health and hygiene, health insurance, fitness and nutrition, and health monitoring and medical check-ups. In addition to the curative segments above, the preventive healthcare market in India is segmented into healthy consumption, fitness and wellness, infection prevention care, health monitoring, and wellbeing assurance segments. The primary care industry is currently valued at \$13 bn¹³. The preventive healthcare market in India was valued at \$49 bn in 2019 and is expected to reach \$194 by 2025, expanding at a CAGR of ~27.30% during the 2020-2025 period¹⁴. The pandemic has also accelerated the adoption of digital technologies, including telemedicine. The major areas where funding is required include:

- The hospital sector in India accounts for 80% of the total healthcare market. It was valued at USD 61.79 Billion in FY17 and is expected to reach USD 132 Billion by 2023, growing at a CAGR of 16%-17%¹⁵. It is noteworthy that around 65% of hospital beds in India cater to almost 50% of the population concentrated in Uttar Pradesh, Maharashtra, Karnataka, Tamil Nadu, Telangana, West Bengal, and Kerala. The other 50% of the country's population living in the remaining 21 States and 8 Union Territories has access to only 35% of hospital beds. This indicates a need to grow hospitals beds by at least 30% to ensure equitable access to healthcare for citizens in all parts of the country.

¹³ Invest India healthcare industry overview 2022

¹⁴ Preventive Healthcare Market in India 2020

¹⁵ Invest India healthcare industry overview 2022

- Health insurance contributes 20% to the non-life insurance business, making it the 2nd largest portfolio. PM-JAY, launched by the Government of India as part of the Ayushman Bharat initiative, could increase the penetration of health insurance in India from 34% to 50%¹⁶. This would, in turn, increase the demand for in-patient services.
- India's pharmaceutical sector is the third largest by volume globally. The cost of production in the country's pharmaceutical sector is around 33% lower than that of the United States and is being continually brought down further¹⁷. India has the opportunity to boost domestic manufacturing, supported by recent Government schemes with performance-linked incentives, as part of the Aatmanirbhar Bharat (Self-Reliant India) initiative.
- Medical devices are considered a sunrise sector of the Indian economy with relatively lower barriers to entry compared to other industries. The size of the Indian medical devices market is estimated at USD 11 billion, and expected to grow to USD 50 billion by 2025¹⁸. India's trade in medical devices has increased though India remains a net importer. Many start-ups in the medical devices space need growth funding to scale up.
- The COVID-19 pandemic provided an impetus for the expansion of the home healthcare market in India. With social distancing as the new norm, telemedicine solutions are fast emerging as a convenient alternative. The market size for telemedicine in India (USD 830 million, as of 2019) is projected to increase to USD 5.5 billion by 2025, growing at a CAGR of 31% during 2020-25¹⁹.
- A low presence of doctors in semi-urban, rural, and remote areas has resulted in limited access to healthcare facilities for many people. Telemedicine and e-Health are considered potential solutions for addressing this lack of access, due to the extensive smartphone penetration in India and improving mobile connectivity.

All these areas require significant investment from private and philanthropic sources. Blended finance can help leverage the private sector to fill this health funding gap across various sub-segments of the healthcare ecosystem. The private sector has the potential to play a pivotal role in reducing out-of-pocket costs for private services and making them more affordable and accessible. There is a need for market-based solutions or commercially viable solutions that are scalable and sustainable which can be purchased by government, employers or individuals according to their purchasing power and social good. Blended financing can facilitate these market-driven high-impact solutions by creating viable business models which can penetrate to the most vulnerable through appropriate risk mitigation where philanthropic grant can be utilized to subsidize commercial capital.

¹⁶ Healthcare. India Brand Equity Foundation. Retrieved December 15, 2020

¹⁷ Invest India pharmaceuticals sector overview 2022

¹⁸ Invest India healthcare industry overview 2022

¹⁹ Telemedicine market size in India 2010-2025. Statista Research Department. Retrieved January 7, 2020

How can blended finance be pivotal for India's healthcare industry?

Every nation has different healthcare priorities, and it is crucial to identify them before shortlisting the right mix of blended finance instruments to support the overall health developmental goals. Two indicators can determine the blended finance prototypes: one, to measure the country's health system status (build, strengthen & transition), and the other to gauge investment attractiveness given the country's fiscal and economic situation (see matrix).

	Build	Strengthen	Transition
Health status	Minimal public health expenditure, insufficient access to health facilities, and poor health outcomes	Moderate public health expenditure, better health infrastructure but low access, improving health outcomes	Higher public health expenditure with variable access and better health outcomes
Investment attractiveness	Underdeveloped financial sector, lack of investor interest	Financial markets still developing, but private healthcare players have better access to capital	More established financial sector, as well as moderately developed private sector and investor interest
Approach to blended finance	Development agencies can focus more on building capacity and pipeline for blended finance	Amenable to deploying simpler instruments but likely not ready for complex blended finance tools	Development agencies can deploy complex blended finance tools, gradually helping countries transition to self-reliance

Source: Country Archetypes, Figure 7, Greater than the sum of the parts, Blended Finance Roadmap for Global Health, USAID, CII Investing for Impact

Countries in the build phase, with less-developed health systems and low investor attractiveness, may deploy simpler blended finance instruments like technical assistance grants and guarantees to mobilize additional capital and resources to move closer to the desired health goals. In comparison, countries in the transition phase with more established health systems and greater participation from private sector investors could explore more intricate instruments like impact bonds, debt-buydowns, and impact funds. A holistic approach with the right set of enablers and strategic partners is required to channel the resources corresponding to each country's healthcare priorities.

India lies somewhere between the strengthen and transition space for investment attractiveness as specific regions. Subsectors in healthcare systems within the country don't align with the overall prototype. Investment Opportunity Areas such as improving primary healthcare services in rural areas have great potential for high development impact, but such models' commercial viability remains unproven. Business models in these 'white spaces' currently face significant commercial hurdles and need to develop further before attracting large-scale commercial private investments. Blended finance can play a critical role in these white spaces and mature areas by incentivizing them to serve vulnerable populations.

Subsector	Affordable Healthcare Delivery			Affordable Medical Equipment and Supplies*	Affordable Pharmaceuticals
Opportunity Areas	Primary care in rural areas	Low-cost hospital satellite centres/ care units in non-metros	Tech-enabled remote care services (such as Telemedicine)	Affordable medical equipment and consumables	Active Pharmaceutical Ingredients manufacturing
Investors identified area as fundamentally marketable?	?	✓	✓	✓	✓
Scale Potential	Primary care market is valued at USD 13 bn	The hospital industry is estimated to be worth USD 62 bn	Telemedicine market is expected to worth USD 5.5 bn	Estimated market size of medical devices industry in India is USD 11 bn	India's bulk drugs market (APIs and intermediaries) is worth USD 13 bn
Proven in-market as evidenced by investors interest?	Models not yet commercially viable	A number of existing players are adopting these models, but models have not yet been proven as profitable	Promising models have attracted venture capital, but have not yet established profitability	Models have demonstrated profitability and attracted private equity investments	Models have demonstrated profitability and attracted private equity investments
Opportunity type	White space: strong scale potential but not successful business models	Emerging	Emerging	Mature	Mature
Emerging business model(s)	Primary and preventive care centres in rural areas	Technology-enabled, asset-light scalable satellite centres/small care units that offer secondary and tertiary care Technology-enabled, asset-light scalable specialist care centre	Scalable mobile-based software solutions and mobile workforce models that allow for remote/at-home medical consultation and symptom-management for chronic diseases	Low-cost manufacturing and distribution of consumables and equipment for hospitals and care centres	Manufacturing of APIs for affordable drugs for high-burden disease categories, such as Cardiovascular diseases, Diabetes and Tuberculosis and drugs included under the National List of Essential Medicines (NLEM)

Source: Figure 14, SDG Investor Map Report for India 2020, UNDP India

Blended financing is an emerging sector globally, and still in its infancy in India. The following case studies demonstrate how blended financing can work in India to solve critical health system gaps. This is followed by the key challenges that need to be addressed for enabling blended finance in India.

CASE STUDIES



CASE STUDIES

Case study I - Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare (SAMRIDH)

Background: India’s existing healthcare ecosystem is coping with the following challenges:

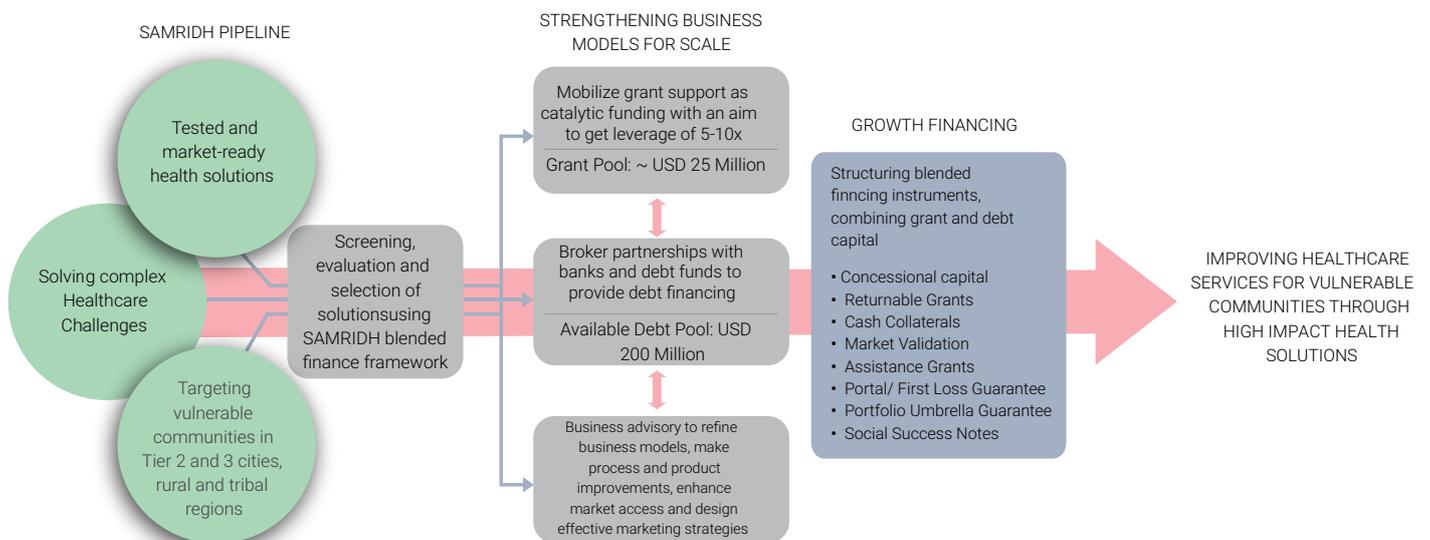
- Limited access to appropriate capital
- Less incentives to adopt innovative practices
- Lack of market intelligence and network

There is both a challenge and a promise to strengthen India’s Healthcare Systems, which underlines the need for tri-sector collaboration between public, private, and philanthropic resources to support innovative healthcare models with capital access.

SAMRIDH Healthcare Blended Finance Facility²⁰ an initiative under the United States Agency for International Development (USAID) and IPE Global’s flagship project Partnerships for Affordable Healthcare Access and Longevity (PAHAL), aims to catalyze innovative financing mechanisms to improve healthcare services for India’s most vulnerable populations. SAMRIDH is supported by USAID in technical collaboration with the Principal Scientific Advisor to the Government of India, Atal Innovation Mission, NITI Aayog, National Health Authority, Indian Institute of Technology (IIT-D), The Rockefeller Foundation, IndusInd Bank, Axis Bank, Caspian Impact Investments and NATHEALTH. This initiative is implemented by a Technical Support Unit managed by IPE Global.

Through this initiative, SAMRIDH combines commercial capital with public and philanthropic funds to mitigate barriers to private investment in healthcare. The approach aims to drive greater resources towards market-based health solutions to improve access to affordable and quality healthcare services for India’s most vulnerable.

SAMRIDH has mobilized a capital pool of over USD 250 million as of January 2022 to offer both grant and debt financing provision to healthcare enterprises, enabling them to augment their capacity for production and supply of high-impact health solutions for COVID-19. This is complemented by strong technical assistance and capacity building component to help enterprises raise commercial investments through blended financing solutions for long-term sustainability and expansion.



²⁰ SAMRIDH Healthcare Blended Finance Facility

Focus areas aligned to current national healthcare priorities

- Vaccine supply and delivery systems
- Healthcare infrastructure
- Diagnostic products and services
- Medical devices
- Training and capacity building of health workers
- Information, Education, and Communication for behavior change
- Oxygen supply

Key objectives

- Bridge supply-side gaps in healthcare facilities to respond to health emergencies in the immediate, medium, and long term
- Accelerate scale-up and adoption of innovative and market-based health solutions
- Mobilize resources to support high impact health solutions and build sustainable healthcare systems
- Promote local and comprehensive solutions at the community and facility level for vulnerable population

Approach

- Identify high impact healthcare solutions
- Facilitate access to affordable capital for healthcare enterprises through its partner financial institutions
- Offer innovative and customized blended financing instruments to ensure long-term sustainability
- Provide technical assistance to maximize the impact and make necessary connections with other enterprises within the larger healthcare ecosystem
- Monitor and evaluate for impact at scale

How can SAMRIDH support national healthcare priorities?

- Deployment Ready Innovations Pipeline: Access to curated investment deals with high-impact health solutions that have the potential to improve healthcare services for vulnerable communities.
- Global Exposure for Make-in-India solutions: Leverage the global network of SAMRIDH's key stakeholders to showcase and enable market access beyond India for high impact health solutions
- Blended Financing structures: Proof of concept for combining commercial capital with philanthropic funding to scale healthcare solutions
- Health System strengthening: Targeted solutions to improve comprehensive healthcare services for the vulnerable 40% of the population

Impact (May'21 to Jan'22)

- Over USD 11 Mn+ committed from grant pool in 25+ high impact healthcare solutions, reaching 28+ states across India.
- Through the blended financing solutions, SAMRIDH so far has achieved leverage of 10.7x on development funding mobilized from corporates, philanthropies, and development agencies.
- Reached over 1200+ Healthcare facilities; 15000+ Medical staff, CHWs, Nurses and covered 30 million population through its partners.

Key learnings

The SAMRIDH Healthcare Blended Finance Facility is taking the below-mentioned measures to overcome some of the challenges associated with adopting blended finance to achieve scale.

It is collaborating with government stakeholders and agencies like NITI Aayog, National Health Authority, Principal Scientific Advisor to the Government of India, IIT Delhi to advocate the regulatory changes required to scale up the adoption of the blended finance solutions across the healthcare ecosystem.

To mitigate the challenges concerning mobilization of private capital and fostering strategic partnerships to implement multi-stakeholder models, the SAMRIDH facility is leveraging philanthropic capital to partner with financial institutions, including Banks and NBFCs. Through this experience, important learning have emerged that acknowledge gaps in donors' expectations versus private funders. The win-win solution is to create social success notes or partial risk guarantees, which provide capital to for-profit enterprises with a social impact mindset. These structures will provide a much-needed impact on philanthropic capital and commercial returns to private capital.

In addition, SAMRIDH assesses the commercial viability and technical robustness of the solutions to impact the most vulnerable populations and provides technical assistance to social enterprises. To foster learning and promote transparency on the blended finance activities, SAMRIDH has created a robust monitoring evaluation and learning system. This includes detailed documentation of the structure of the transaction, stakeholders involved, outcomes and impact achieved, and the amount of leverage realized. This will help propagate the advantages of mobilizing blended finance transactions, provide a guided road map for structuring potential future transactions, and increase the scalability of these concepts. SAMRIDH is also forging partnerships with institutions like the Association of Impact Investors and Academic Institutions to create and promote the circulation of templated models for blended finance structures using different sources of capital for easy adoption and scale-up.

The facility demonstrates the efficacy of structuring customized and innovative blended financing structures to offer a win-win solution for all the different stakeholders involved in any transaction. These blended finance transactions are filling a crucial bottleneck in tackling new frontiers to support business models focusing on social impact with the help of philanthropic donors and commercial investors, which otherwise may not have been possible.

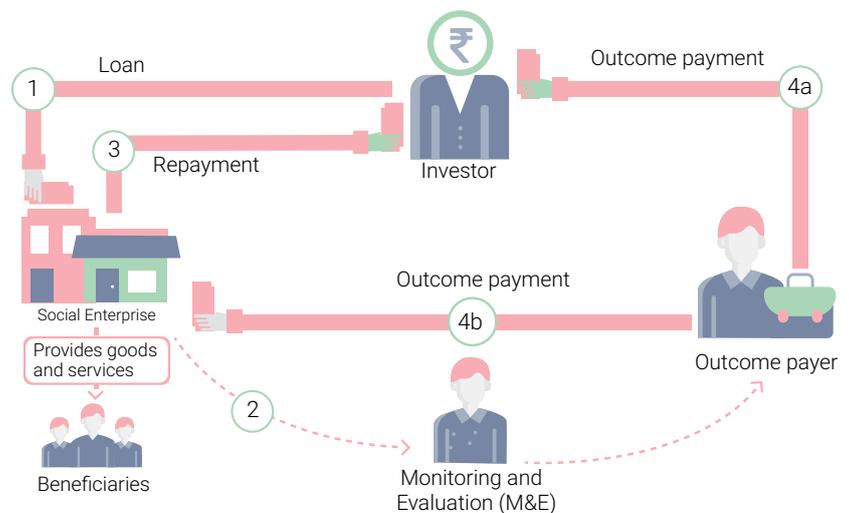
Case study II - SAMRIDH's Portfolio Level Social Success Note Program

A **Social Success Note** (SSN) is a blended finance instrument based on the principle of pay-for-success, which helps for-profit social enterprises access affordable debt to scale their operations and impact while delivering mission-aligned targets and outcomes.

A **Portfolio Level Social Success Note** is an altered version of a traditional SSN wherein multiple social enterprises with a proven business model are covered under an umbrella of low-cost loans offered by the same financial institution. Each of the social enterprises which form part of the portfolio have to achieve quantifiable and measurable impact indicators basis which the quantum of outcome payments are linked. If the social enterprises within the portfolio achieve the predetermined impact indicators and outcomes, the outcome payer (donor/ philanthropic funder) offers the risk investor (financial institution) an added incentive depending on the outcomes which have been achieved. This approach ensures a competitive risk-adjusted return for the risk investor, thereby making the instrument attractive for private sector players. The outcome payer may also choose to provide an incentive to the social enterprises through financial institutions to reduce the operational hassle of transferring funds directly. This program offers a standardized blended finance instrument that can further promote greater adoption and scale-up opportunities for social enterprises and reduce the process and time involved in processing SSNs at an entity level.

The advantages of utilizing a portfolio level social success note program include:

- Aligns incentives of various stakeholders to provide enterprises with mission-aligned affordable capital to help them scale up and become financially sustainable
- Beneficial for social enterprises since they struggle to raise high-cost commercial capital owing to lower margins in serving underserved segments
- The outcome payer gets access to a larger pool of social enterprises across segments and geographies and could define such limits under the program to ensure targeted impact-oriented interventions
- The pooled structure can be easily replicated and scaled up with multiple financial institutions, thereby making commercial capital affordable for high-impact social enterprises through an incentive structure



SAMRIDH's Portfolio Level Social Success Note Program

Investment Manager: Caspian Debt, IPE Global

Outcome Funder: United States Agency for International Development (USAID) through SAMRIDH (IPE Global)

Launch Year: 2021 | **Size:** USD 5 Mn | **Sector:** Healthcare | **Region:** India (Asia)

Market Opportunity: Small and niche enterprises aiming to provide affordable healthcare solutions to the vulnerable population in India often struggle to run businesses commercially. Given the early business stage of the enterprises, lending to this segment becomes highly risky for commercial investors.

Model: Caspian Debt (acting as risk investor), after thorough due diligence, will provide loans to the healthcare enterprises in the pool, using which the enterprise will work to achieve pre-agreed social impact outcomes. Based on the achievement of these outcomes, they will receive an outcome payment (from SAMRIDH) via Caspian Debt equivalent to 5% p.a. of the interest payment, thereby reducing the overall interest cost for the enterprises.

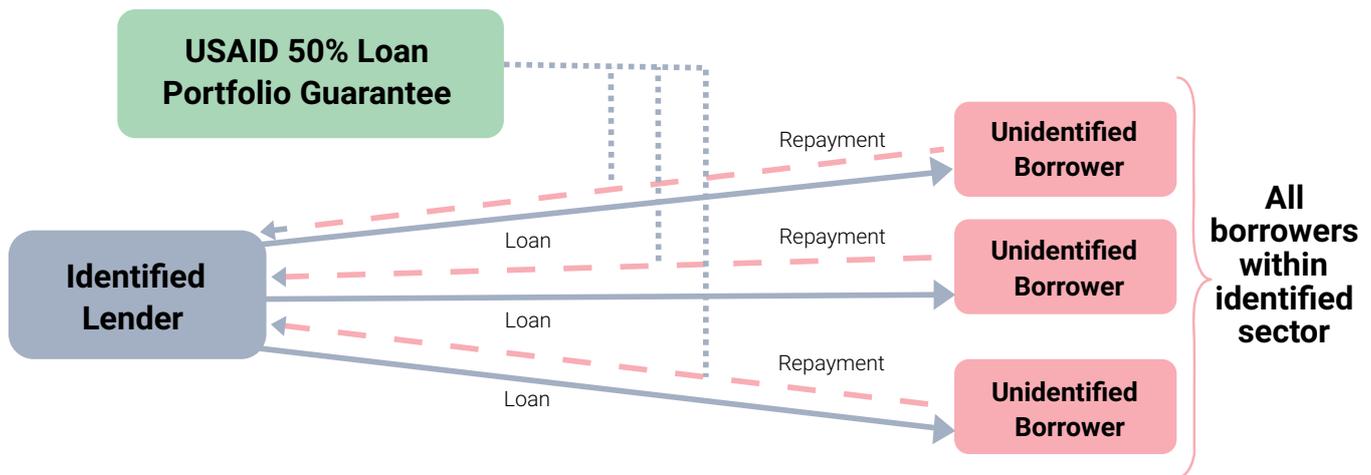
The rationale for blended finance: This facility creates a joint intervention for commercial investors and philanthropic funders to provide high-impact healthcare enterprises with the necessary resources to raise commercial capital and scale in a sustainable manner so that they can continue delivering on their mission.

Impact: Through this pooled project, multiple healthcare entities will mobilize commercial capital for scaling up and expanding their business. The outcome funder will be able to derive a higher impact on its funds spreading across a portfolio of healthcare enterprises. The program's intent will be to support solutions focusing on providing healthcare solutions and facilities to the under-served- in rural/semi-rural areas, urban poor, or tier 2&3 cities.

Case study III - USAID's Portfolio Guarantee Program for Healthcare Enterprises in India

Guarantees are legally binding agreements under which a third party ("guarantor") agrees to pay in the event of non-payment or loss of value. The public or philanthropic sector deploys guarantees to create investment opportunities with acceptable risk-return profiles for the private sector by de-risking the investments and improving the risk-return profiles relative to the market norms.

Guarantees act as a risk underwriting measure. They help to ensure that investors receive a minimum level of



returns or limit an investor's losses if an investment underperforms expectations. Guarantees may be full (i.e., cover the full value of scheduled repayments) or partial (i.e., cover a portion of the full value). A partial credit guarantee can attract private investors by improving the business enterprise/project's creditworthiness by limiting the downside risk and reducing the required return for other investors.

The availability of a guarantee can significantly improve the business enterprise/ project's financial viability by off-setting the high up-front transaction costs, thereby reducing the uncertainty over whether the project will become operational.

Benefits of Guarantees (Full or Partial Risk) include:

- Making social impact/ developmental projects commercially viable by shifting the risk-returns ratio and/or reducing the cost of capital
- Enables developmental/ philanthropic funders to support larger projects than individual instruments and programs
- Guarantees do not require an immediate outlay of capital, and only require funds when they are called for, which enables the same pool of capital to support multiple projects
- Allows diversification of risk across the portfolio of borrowers and provides participation from multiple stakeholders to make high-impact investments in healthcare enterprises
- This structure also allows for higher leverage on grant capital compared to transaction-level support

USAID's Portfolio Guarantee Program for Healthcare Enterprises in India**Investment Manager:** IndusInd Bank**Developmental Funder:** United States Agency for International Development (USAID)**Launch Year:** 2018 | **Sector:** Healthcare | **Region:** India (Asia)**Portfolio Size:** USD 50 Mn | **Guarantee Size:** USD 25 Mn (50% Pari-passu risk on principal only)

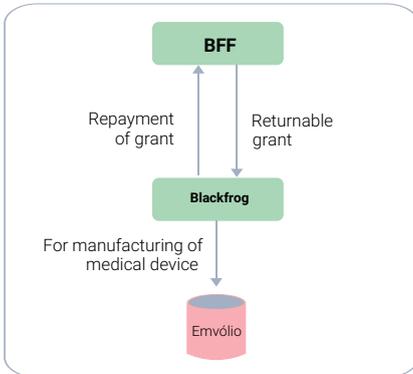
Market Opportunity: Early-stage and growth-stage healthcare enterprises often experience difficulties raising commercial capital due to long tenors, capital-intensive business models with dynamic market regulations. In addition, commercial banks may be unwilling to lend further due to a lack of adequate collateral due to long working capital cycles leading to cashflow mismatch and high perceived risk. There is a significant need for medium- to long-term financing for healthcare enterprises in India, which can be an attractive opportunity for commercial investors and lenders.

Model: The guarantee from USAID covers 50% Pari-passu risk on principal only on the qualifying loans extended by the bank to the healthcare entities by paying a utilization fee to the USAID every year on the outstanding loan book. The guarantee is not a first loss guarantee but a pro-rata risk-sharing guarantee of losses after collection efforts pursuant to the claim. In case of recovery, the bank shall reimburse USAID on a pro-rata basis the Recovered Funds after deducting any expenses incurred in the collection efforts.

Rationale for blended finance: USAID, by acting as a guarantor, is strengthening the bank's ability to lend to healthcare enterprises catering to customers, including the vulnerable population, thereby improving access to affordable and quality healthcare services within India.

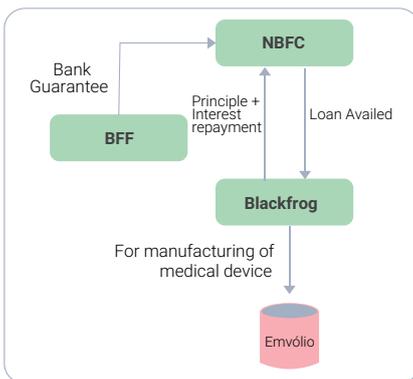
Impact: The partial risk guarantees act as a powerful catalyst to encourage financial institutions to lend into new markets, making credit available to under-served borrowers. The guarantee also entices the lender to offer favorable terms to the healthcare enterprises, which enables them to optimize profits, expand reach, and become sustainable in the long run.

Case study IV - Blackfrog Technologies Pvt. Ltd.

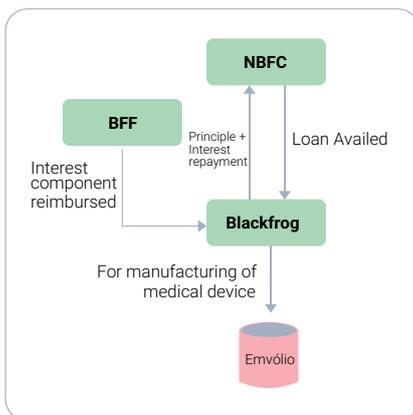


Returnable Grants: Returnable Grants are an innovative financial instrument that aims to leverage the best of grant capital structured in the form of a loan. Through this mechanism, the borrower receives a zero-interest loan with only a moral obligation to repay. Once returned, the grant capital forms part of a revolving fund that can then be re-disbursed, thereby creating enormous leverage on the initial grant capital.

This type of financing appeals to developmental funders and philanthropic donors as they can regularly receive the reflows and deploy the funds across other programs or priorities.



Partial Risk Guarantee: With this instrument, the guarantor agrees to pay part of the entire value of the loan to the lender as a risk-mitigation measure in the event of non-payment or loss of value. The partial risk guarantee aids in shifting the risk-return profile of the investment and reduces the cost of capital, making the investments commercially viable. A partial credit guarantee can attract private investors by improving an investment's creditworthiness by limiting the downside losses reducing the required return for that level of risk for other investors. It can also significantly improve an investment's financial viability by offsetting high up-front transaction costs, reducing the uncertainty of a project becoming operational.



Interest Subvention: In interest subvention, based on the social impact that is achieved by the business enterprise, the interest component on loan gets paid fully or partially by a developmental funder or a donor to promote the achievement of social goals. Generally, interest subvention is provided by the government to facilitate affordable capital to the entrepreneurs, thus encouraging business activities in priority or focus sectors. However, parallels can be drawn to the development sector and developmental capital can be utilized to accelerate achievement to sustainable development goals.

Interest subvention instrument acts as a great incentive for the business enterprises to expand their portfolio of products/services while creating social impact and not compromising on their commercial viability. The subvention also encourages the enterprise to service the loan better and provides comfort to the lender(s) thereby reducing credit/default risk on the borrower due to improved margins.

Blackfrog Technologies Pvt. Ltd.**Investment Manager:** IIT-Delhi, Caspian Debt & IPE Global**Developmental Funder:** USAID and Rockefeller Foundation**Launch Year:** 2021 | **Sector:** Healthcare**Total Investment Size:** USD 200,000 | **Interest Subvention:** 10% p.a. for 18 months | **Returnable Grant:** USD 71,000**Partial Risk Guarantee:** USD 114,000

Market Opportunity: Blackfrog Technologies is a health-tech company specializing in the last mile delivery of medical supplies and biologicals. Their groundbreaking invention, EMVÓLIO, a portable, active cooling, battery-powered device facilitates safe last-mile delivery of COVID-19 vaccines across the country. The enterprise needed to raise funds to increase its manufacturing capacity and expand its presence to other geographies.

Model: Through the blended finance structure, Blackfrog was able to avail a loan from Caspian Debt, a leading NBFC. However, given the risk profile of the enterprise, there was a requirement for additional collateral to avail the loan and initial support to service the loan at market rates until entity achieves commercial sustainability. Given the future demand for the EMVÓLIO product and the order pipeline, the enterprise was a good fit to avail a blended investment for business expansion and long-term sustainability. Further, Blackfrog was provided with scale-up advisory support through technical assistance facility of USAID to enable access to international markets such as Africa.

Rationale for blended finance: Given the nascent stage of the enterprise, Blackfrog was experiencing a cashflow crunch triggered by long working capital cycles, high up-front costs, and limited manufacturing capacity. Combining returnable grants with a commercial loan from NBFC allowed the enterprise to scale up faster and achieve financial sustainability without relying heavily on the equity funds.

Impact: The blended approach enabled the enterprise to avail commercial lending at favorable terms to finance its expansion which further enabled greater economies of scale and improved cash flows.

Case study V - Skill India Impact Bond, India's First Skill Impact Bond with a Gender Lens

Social Impact Bond (SIB): An innovative blended financing instrument that blends public, private, and philanthropic capital through performance-based contracts dedicated to creating social impact. In a SIB, a risk investor provides the initial capital to the social enterprise (implementation partner) to scale its work. An outcome funder(s) repays the risk investor if and when the project's target outcomes are achieved, and the on-ground impact has been generated.

Social Impact Bonds can also be categorized as Pay-for-Performance instruments. They enable desired outcomes to be achieved, triggering success payments to implementers and repayment of principal to investors via outcome sponsors.

Social Impact Bonds invite participation from the private investors to cover the upfront capital to kickstart the project. The funds are then repaid by outcome funder(s) i.e., government, philanthropic organizations, donors, only if the pre-defined impact outcomes are achieved and verified by an independent third party. This approach brings in the discipline for outcome funders to derive high level of impact with every dollar spent. In addition, social impact bonds promote entrepreneurship and private sector dynamism towards developmental challenges and create investable opportunities for public, private and philanthropic investors.

Social Impact Bonds are built on the premise of aligning the interest of the social enterprise, investor, and outcome funder, thus advancing social and developmental objectives. In the healthcare sector, these instruments propel the implementation partner/agency to achieve required targets, enhance the quality of care, prioritize initiatives/activities in the focus areas and promote efficiency in the health system.

This blended finance instrument enables the means for mobilizing private capital, fostering collaboration between various stakeholders, promoting innovation, increasing accountability, and driving performance for better social returns.

Skill India Impact Bond - India's First Skill Impact Bond with a Gender Lens

Risk Investors: National Skill Development Corporation and Michael & Susan Dell Foundation

Outcome Funders: British Asian Trust, The Children's Investment Fund Foundation, HSBC India, JSW Foundation and Dubai Cares

Implementation Partners: Apollo Medskills Ltd, Gram Tarang Employability Training Services, Learnet Skills, Magic Bus Foundation, and PanIIT Alumni Foundation

Performance Manager: Dalberg Advisors | Outcome Evaluator: Oxford Policy Management

Technical Partners: FCDO (UK Government) and USAID through its flagship innovative financing platform – PAHAL

Launch Year: 2021 | **Sector:** Skilling & Education **Region:** India (Asia)

Investment Size: USD 16 Mn over 4 years

Market Opportunity: There is a significant skilling gap within the country's youth which has been widened due to the effects of the COVID-19 pandemic. There lies a bundle of opportunities for the skilling ecosystem with joint efforts by the public and private sectors to drive changes among the beneficiaries with respect to changes in their income level, health status, consumption pattern, employment opportunities, decision making, etc.

Model: The Skill India Impact Bond aims to support 50,000 youth in India over four years, of which 60 percent will be women and girls. The youth will be imparted skills through training and provided access to wage employment in COVID-19 recovery sectors such as healthcare, retail, logistics, etc. Under SAMRIDH the focus will be on skills for the healthcare sector and allied sectors/services that contribute to health outcomes.

Rationale for blended finance: Through this collaborative pay-for-success model, the SIB will inch closer to bridging the skilling gap in urban and rural India and address the employability crisis due to pandemic. The SIB model aims to approach mainstream gender factors in business investments to yield higher economic, social, environmental, and return on investment outcomes, mitigate risks.

Impact: The above collaboration intends to build the capacity of India's Skilling and Technical and Vocational Education and Training (TVET) by promoting strategic collaborations to assist learning outcomes. Further, with support from USAID, PAHAL (under IPE Global) aims to explore the linkages between the skilling program and its impact on the health status, well-being, needs, economic status, etc. among the skilled individuals.

For more information, please visit <https://nsdcindia.org/sib>

KEY CHALLENGES TO ACHIEVE BLENDED FINANCE AT SCALE



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The blended finance market in India has been growing, inviting the participation of public, private, and philanthropic capital, which can play a crucial role in unlocking the additional financing required to achieve the SDGs. Blended finance offers India a unique opportunity to promote strategic partnerships with the private sector to mobilize capital towards developmental initiatives. Though the world has seen new blended finance projects in the last few years, the health sector comprises a small proportion of the blended finance portfolio globally and has room for expansion. The healthcare sector is well suited to fund the extraordinary efforts because of the following reasons:

- Measurable and clear health outcomes (e.g., whether the patients are successfully treated, vulnerable populations are vaccinated, preventive care services are available and accessible to people)
- Strong funding interest from the investment community, risk capital providers, and outcome funders, as well as a large and diverse pipeline of service providers from the private and public sector
- Scaling up through existing templates of blended finance structures which can establish pricing of outcome
- A developing ecosystem of intermediaries active in blended finance who can bring in all participants in the structures

Some key challenges hampering the adoption of blended finance at scale include:

- **Lack of a private sector mobilization strategy and action plan:** Blended finance is one tool in the development toolbox centered on increasing the quantum of financing to SDG projects. Donors are the main source of the catalytic funding that create the market-equivalent investments that mobilize private investment, but they have not prioritized and budgeted private sector mobilization as a necessity to significantly narrow the SDG financing gap. Further, the idea of providing financial returns to risk investors has not been adopted widely by the development sector community.
- **Low levels of coordinated participation from the government:** Representation from governments is crucial to scaling blended finance. The current government system is based on input-based budgeting, while blended finance structures such as SIBs require a shift to outcome-based funding. The tendering process involved in creating structures such as SIBs creates delays in structuring blended finance transactions.
- **High transaction costs and long timelines in structuring blended finance solution:** Though the design and evaluation costs for structures such as DIBs and SIBs are decreasing over the years, these are still high. A blended finance solution's design and contracting time is typically higher than traditional grants or pure commercial investment. However, with structures like portfolio level guarantees or social success notes, the time to execute transactions is coming down due to the portfolio-level approach, which provides both higher impact and scale. The blended finance intermediaries executing these structures in short timelines and with lower transaction costs should act as a harbinger of blended finance and collaborate and strategize with other structuring agencies to minimize the lead time to increase the adoption of blended finance.
- **Lack of transparency on blended finance activity limits its scalability:** Concessional capital providers do not publicly disclose financial terms or ex-post development outcomes, limiting the evidence base for blended finance as a development tool, while private investors do not disclose data on financial performance due to confidentiality concerns. Together, this hinders blended finance from scaling.

- **Regulatory Constraints in mobilizing grant capital such as CSR funds:** The government of India mandated in 2013 that 2% of corporate profits be directed to the development sector, boosting the spending pool for CSR activities by an estimated \$7 billion. While the initiative started slowly, some CSR initiatives, impact investors, and donors are now actively exploring creative channels to best combine the CSR mandate with the financial innovation in the market. However, legal obstacles and regulatory constraints still exist for the use of CSR in blended finance structures, and it requires clear guidance from regulators to make the best use of CSR funds.
- **The ecosystem for blended finance is underdeveloped:** There is a lack of financial intermediation in the blended finance market and addressing the SDG investment gap more generally. Donors and investors are looking to channel large amounts of capital towards market opportunities aligned with the SDGs. Yet the projects are often small, and few intermediaries in the market are equipped to manage these financial flows. Even when blended finance can successfully aggregate cross-border investment pools, few intermediaries can channel these flows effectively.
- **Lack of templated models:** Templated models have not been created due to the inherent complexity in the laws while structuring fund flows using different sources of capital. The blended finance intermediaries need to develop right partnerships with institutions like association of impact investors and academic institutions which can help create such models, assess their impact and cost-effectiveness.
- **Focused mandate restricts flexibility:** Each party involved in a blended finance transaction has its focused mandate restricting the flexibility of finance required for blended financing structures. For instance, philanthropic institutions are guided by developmental impact in line with their specific mandates determining outcomes, geographies, target beneficiaries, thematic areas. In contrast, commercial institutions engage in blended finance with commercial motives, seeking a commercial return according to their regulatory requirements.
- **Lack of openness from NGOs & CSO for availing commercial capital:** Non-Governmental Organizations (NGOs)/Civil Society Organizations (CSOs) that have higher penetration to the most vulnerable sections of the society and thereby can help achieve larger impact, are not open to commercial investments. These organizations mostly focus on raising grants to provide services to end beneficiaries without charging them. This restricts their ability to get on to a common term with the commercial institutions, which require sustainable models. Further, focusing on the specific needs of vulnerable populations necessitates more localized support, which limits the scale of these NGOs/CSOs.

THE WAY FORWARD



THE WAY FORWARD

There is no one-size-fits-all solution to initiating or scaling blended finance. Each enterprise's journey is unique. Supporting innovative businesses and projects utilizing concessional capital at an early stage, thereby attracting private capital in the medium-long term financing, can be truly transformational and enable success stories of sustainable business models. Blended finance can be a positive tool for creating investment opportunities and promoting tri-sector collaboration between public, private, and philanthropic organizations towards scaling impact for development. Globally, blended finance is entering the mainstream, wherein traditional policymakers and grant-making agencies are adjusting their perspectives and exploring opportunities that can be leveraged to revolutionize the development finance sector. Added participation and involvement by the private sector magnifies the blended finance market, leading to improved scale in investing approaches and solutions. Although an enormous funding gap still exists towards fulfilling the gap in SDG financing, there is growing momentum for blended finance, and positive signals are being received from the capital markets for greater adoption.

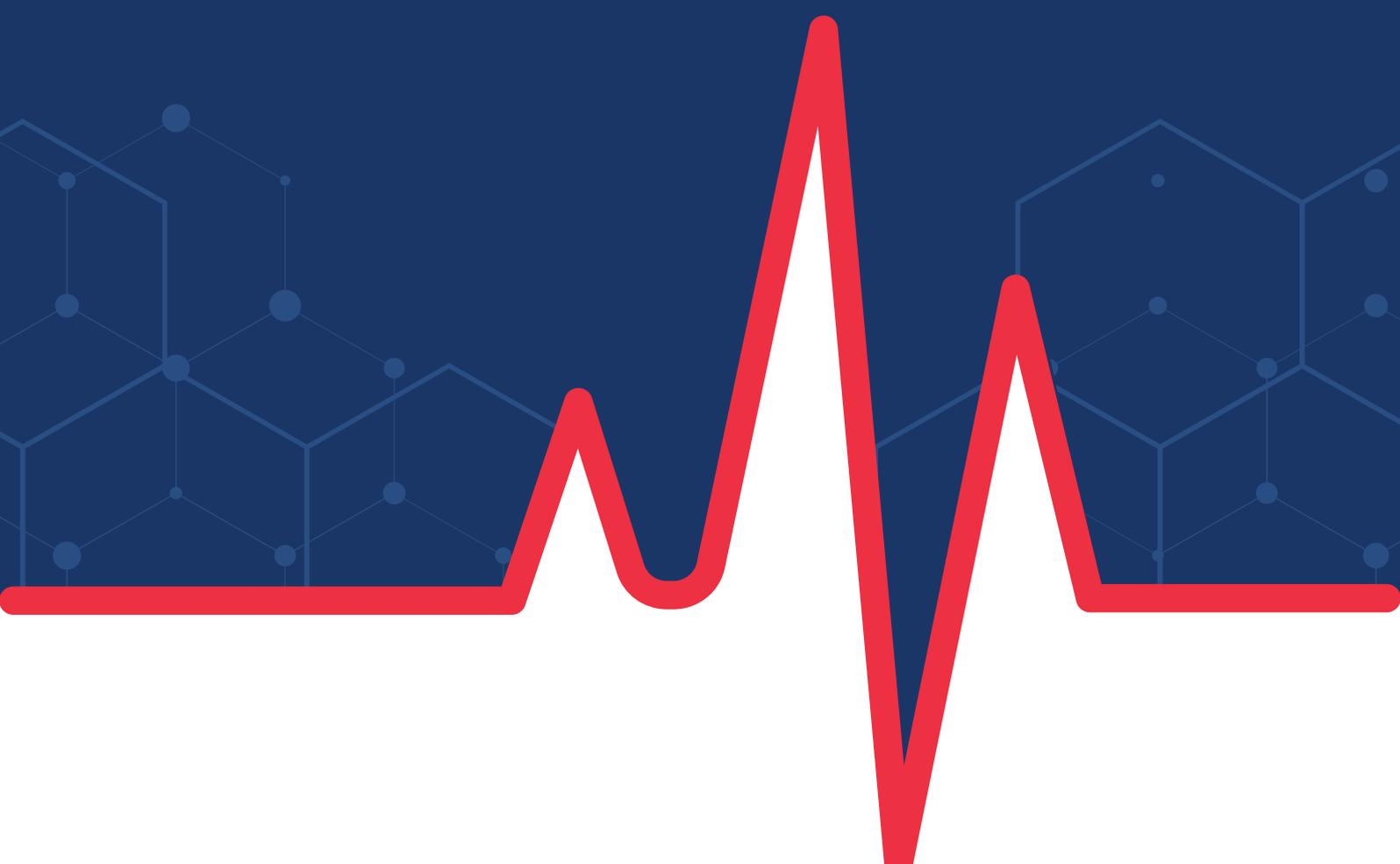
Some of the recommendations and key takeaways to promote the adoption and inclusion of blended finance investments include:

- **Support domestic financial ecosystems and market development:** Blended finance should be used strategically to develop sustainable domestic market systems and build the capacity of local capital market actors by:
 - supporting local capacity-building to improve the enabling environment
 - greater mobilization of local investors
 - strengthening the role of national development banks in deploying blended finance
 - creating bigger pools of philanthropic funds and getting the government to allocate more capital for outcome funding or guarantees that can leverage 5 to 10 times as much risk capital
 - investor education and knowledge exchange
- **Going beyond bespoke structures:** To scale blended finance instruments further, the stakeholders involved need to go beyond bespoke structures towards larger risk-sharing arrangements and syndicate funding to High-Net-worth Individuals (HNIs) and family offices. In addition, creating awareness about this new asset class with a lower risk-adjusted return and some capital loss protection as a sweetener can allow philanthropic capital recycling while funding for measurable impact.
- **Advocacy for enabling regulations to mobilize CSR capital and relaxations in FCRA Act, 2010:** To unlock private capital, enabling regulations like provision to use Corporate Social Responsibility (CSR) funds as risk capital or outcome funding could potentially scale up the use of blended finance structures. Further, The Ministry of Home Affairs ("MHA") has recently tightened FCRA regulations to prevent any misuse of funds. MHA may consider introducing suitable modifications to enable blended finance transactions more generally, subject to additional spending reporting requirements to ensure it is not misused.
- **Fastrack creation of marketplaces such as Social Stock Exchange:** Creating new marketplaces like the proposed Social Stock Exchange, which could potentially list impact bonds, social bonds, debt swaps, and not just equity instruments of social enterprises, could help in narrowing down the funding gap.

- **Design blended finance solutions to reach the "last-mile":** Blended finance actors should design innovative structures that target the hardest to reach and most underserved areas by:
 - focusing on risk mitigation tools
 - engaging local stakeholders to identify project opportunities in line with local needs
 - targeting the "missing middle" enterprises
 - employing digital financial solutions
 - ensuring the accessibility and affordability of products and services developed with the support of blended finance investments.
- **Improve impact management and measurement and promote transparency:** Lack of transparency of blended finance operations severely hinders the further growth and improvement of the blended finance market. Blended finance actors should focus on:
 - improving impact management and measurement practices
 - increasing the transparency of existing investments
 - promoting collaboration and the sharing of knowledge, best practices and lessons learned.
- **Bring blended finance to large scale through systemic and transformational approaches:** Supporting transformation towards more sustainable and resilient economies post-COVID-19 requires blended finance to move towards more systemic approaches by:
 - incorporating blended finance into coordinated multilateral crisis responses, national recovery, and sustainable development plans
 - adopting a portfolio approach (through vehicles, platforms) for scalable solutions

ADDITIONAL READINGS

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